

Russian Small Businesses Struggle With Worst Payment Delays Since Pandemic, Survey Finds

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Russian small and medium-sized enterprises are experiencing their worst payment crisis since the early months of the pandemic, with a growing number of businesses reporting delays, refusals to pay and mounting financial strain.

According to recent <u>surveys</u> conducted by the state-owned Promsvyazbank in collaboration with several analytical centers, one in four companies said they had encountered cases of non-payment or unethical behavior by business partners over the past six months.

Fifteen percent of respondents reported a rise in such incidents, levels not seen since the peak of the Covid-19 crisis in 2020.

Late payments were by far the most common issue, cited by nearly 80% of affected firms. Another 58% said clients or customers had flatly refused to pay for goods or services already

delivered.

"Payment chains are collapsing," <u>said</u> Alexander Shokhin, president of the Russian Union of Industrialists and Entrepreneurs. "Even large companies are delaying payments. It's better to hold on to [the money] and just pay the fines, but the interest rate covers everything," he added, referencing the Central Bank's benchmark rate of 18%.

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That steep rate, intended to cool inflation, has exacerbated the cash crunch for many firms.

Analysts at Promsvyazbank and the government-linked CMACP center note that the non-payment crisis stems less from deliberate fraud and more from widespread financial distress across the economy.

Businesses say high borrowing costs are weighing heavily on their ability to operate, particularly among smaller firms.

According to Central Bank data, overdue debts among SMEs jumped by nearly 20% in the first five months of the year, reaching 766 billion rubles (\$9.5 billion) as of June 1.

Overdue loans now account for 4.9% of the sector's total loan portfolio, which stands at 15.5 trillion rubles (\$192.9 billion).

The pressure is showing in business sentiment. The Russian Small Business Index, based on survey responses, fell to around 51 points in both May and June, the lowest since fall 2022.

Sales data paint an even bleaker picture: 47% of companies reported declining revenues in June, while just 13% saw growth.

Only 26% of business leaders now expect an improvement in sales, the lowest figure so far this year.

Adding to the strain are new tax burdens introduced in 2024, including a profit tax hike and the expansion of value-added tax obligations to businesses with annual revenue above 60 million rubles (\$746,000).

Survey data show account blockages over overdue taxes are becoming more common and more prolonged, creating additional disruptions.

Smaller businesses, often with tighter cash reserves, are particularly vulnerable. In response, many have stepped up background checks on clients and partners in an effort to minimize risk.

That scrutiny may be paying off: the share of companies reporting no recent issues with unethical counterparties rose by five percentage points over the past year, reaching 43% in June.

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